

## 4 PRICES FOR BRAND-NAME DRUGS UNDER SELECTED FEDERAL PROGRAMS

**Table 1.****Description and Estimates of Prices Paid to Manufacturers, Relative to List Price, for Brand-Name Drugs Under Selected Federal Programs, 2003**

Price	Description of Price and Associated Federal Program	Average Price as a Percentage of List Price
Average Wholesale Price (AWP)	The AWP is a publicly available, suggested list price for sales of a drug by a wholesaler to a pharmacy or other provider. It is not the actual price that wholesalers charge but serves more like a sticker price in the automobile industry. It was chosen as the reference price for this analysis because it is commonly used in pharmaceutical transactions.	100
Average Manufacturer Price (AMP)	The AMP is used to calculate the rebates that manufacturers are required to give to federal and state governments for sales to Medicaid beneficiaries. The AMP is the average price paid to a manufacturer for drugs distributed through retail and mail-order pharmacies. The AMP does not include rebates paid by the manufacturer to third-party payers. Both the AMP and the nonfederal average manufacturer price exclude sales to direct federal purchasers.	79
Nonfederal Average Manufacturer Price (Non-FAMP)	The non-FAMP is used to calculate the maximum price that manufacturers can charge the "Big Four"—the Department of Veterans Affairs (VA), the Department of Defense (DoD), the Public Health Service (PHS), and the Coast Guard—for brand-name drugs. The non-FAMP is the average price paid to the manufacturer by wholesalers (or others who purchase directly from the manufacturer) for drugs distributed to nonfederal purchasers, taking into account any cash discounts or similar price reductions given to those purchasers but not taking into account any prices paid by the federal government. The non-FAMP does not reflect rebates paid by the manufacturer to third-party payers.	79
Best Price	The best price is used to calculate the rebates that manufacturers are required to give to federal and state governments for sales to Medicaid beneficiaries. The best price is the lowest price paid by any private-sector purchaser for the drug product, and it includes discounts, rebates, chargebacks, and other pricing adjustments.	63
Federal Supply Schedule (FSS) Price	All direct federal purchasers of pharmaceuticals can purchase drugs at prices listed in the Federal Supply Schedule for pharmaceuticals (FSS prices). The VA negotiates FSS prices with manufacturers on the basis of the prices that manufacturers charge their most-favored commercial customers under comparable terms and conditions. Furthermore, during a multiyear contract period, those FSS prices may not increase faster than inflation.	53
Medicaid Net Manufacturer Price	The Omnibus Budget Reconciliation Act of 1990 requires manufacturers to pay a rebate to the Medicaid program. For brand-name drugs, the basic rebate is equal to the greater of 15.1 percent of the AMP or the difference between the AMP and the best price. There is an additional rebate if the AMP rises faster than inflation. The Medicaid net manufacturer price is the AMP minus all rebates.	51
340B Ceiling Price	Section 340B of the Public Health Service Act of 1992 extends the Medicaid drug rebate program to PHS-funded clinics and disproportionate share hospitals. Eligible entities are free to negotiate steeper discounts than the Medicaid rebate amount. Not all eligible entities choose to participate in the program, however.	51

Continued

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Price	Description of Price and Associated Federal Program	Average Price as a Percentage of List Price
Federal Ceiling Price (FCP)	The FCP is the maximum price that manufacturers can charge the Big Four for brand-name drugs. It is calculated annually. In the first year of an FSS contract, the FCP equals 76 percent of the previous fiscal year's non-FAMP minus an additional discount if the non-FAMP rises faster than inflation. In subsequent years of a multiyear contract, the FCP also cannot exceed the previous year's FSS price, increased by inflation.	50
Price Available to the Big Four	Under the federal ceiling price program, the Big Four purchase brand-name drugs at a price that cannot exceed the FCP. About two-thirds of the brand-name drug products on the FSS have one FSS price (which cannot exceed the FCP). The remaining one-third of the brand-name drug products have both an FSS price, offered to all non-Big Four purchasers, and an FSS Big 4 price, offered to the Big Four. The price available to the Big Four is the FSS Big 4 price when it exists and is the FSS price offered to all federal purchasers otherwise.	49
VA Average Price	The VA average price for a drug may be lower than the price available to the Big Four because VA negotiates further price reductions using its preferred formulary. The VA average price takes into account all the various pricing schedules and contracts under which VA purchases drugs, and it includes discounts from the prime vendor that averaged about 3 percent of the contract price in 2003, or about 1.4 percent of the AWP.	42
DoD's Military Treatment Facility (MTF) Average Price	The DoD military treatment facility average price for a drug may be lower than the price available to the Big Four because DoD negotiates further price reductions using its preferred formularies. The MTF average price takes into account all the various pricing schedules and contracts under which DoD purchases drugs.	41

Source: Congressional Budget Office.

Notes: In this analysis, the list price is the average wholesale price.

The study sample includes 130 single-source brand-name prescription drugs that accounted for about 50 percent of U.S. sales through retail pharmacies and about 70 percent of U.S. sales of brand-name drugs through retail pharmacies in 2003. The estimates of average price are based on the quantities of those drugs sold in the United States and, with the exception of the FCP, are for the third quarter of 2003. (The FCP is calculated annually, so the estimate of average price is for calendar year 2003.) Results for other quarters in 2003 are similar. Prices exclude dispensing costs (see Box 1 on page 2).

card program (which began June 1, 2004) in terms of percentage discounts off of the AWP.<sup>6</sup> Finally, pharmacies often use the AWP as a basis for pricing prescriptions to

cash-paying customers. Therefore, the prices that manufacturers and wholesale distributors charge for brand-name prescription drugs under federal programs are expressed in Table 1 and described in the text below as a percentage of the AWP.

### Direct Federal Purchasers

The federal government seeks to obtain prices that are equal to or lower than the lowest prices paid for drugs in the private marketplace. Depending on the program, the government has various measures of "lowest price." In general, manufacturers are required to report to the fed-

6. The AWP also had been used in the Medicare program to calculate payment rates for drug products administered in a physician's office (under Medicare Part B), but the MMA began basing payment for drugs covered under Part B on average sales price (ASP) on January 1, 2005. ASP as defined for the Medicare Part B program is the manufacturer's average price to all nonfederal purchasers in the United States. It includes all volume discounts, prompt-pay discounts, cash discounts, free goods that are contingent on any purchase requirement, chargebacks, and rebates (other than rebates under the Medicaid drug rebate program).